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Mr. Chairman, thank you for giving me the opportunity to participate in this regional hearing on competition in the electric power industry before the House Commerce Subcommittee on Energy and Power. My name is John L. Stein. I am here on behalf of Anheuser-Busch Companies where I am the Director of Strategic Environmental Initiatives. Anheuser-Busch is a member of and supports the policies of the Electricity Consumers Resource Council (ELCON), a national trade association representing 35 companies who purchase approximately 6% of the electricity consumed in the U.S. and the Virginia Committee for Fair Utility Rates, a state group representing large electricity users in the Commonwealth of Virginia.

Anheuser-Busch's beer, packaging and entertainment products compete in domestic and international markets against products manufactured throughout the world. As a large power consumer, Anheuser-Busch needs a reliable supply of electricity at the lowest possible cost. We believe we can achieve that result in a more competitive and efficient electricity market, which would allow our facilities to purchase power directly from the lowest-cost provider anywhere in North America. This would also bring benefits to our consumers who buy our products. Although we continually look for ways to reduce our electricity costs -- such as purchasing power at transmission voltage levels, building cogeneration plants and spending capital for conservation of electricity -- regulation and the lack of competition in the utility industry limit what we can do. We cannot achieve the maximum competitiveness that our facilities need to

succeed in world markets as long as they are captive customers to local utilities and are required to bear the local monopoly rates for electricity.

Consider Anheuser-Busch's present situation. In 1996 Anheuser-Busch spent over \$100 million for electricity in the United States. The rates we pay at our major manufacturing facilities range from a low of 3.4 cents per kilowatt-hour for firm power in Columbus, Ohio to 7.7 cents per kilowatt-hour in Merrimack, New Hampshire.

A price range of this magnitude makes the cost of electricity a much more significant competitiveness issue than it should be. The beer business is extremely competitive, and that means that in turn every single one of our twelve breweries -- and our suppliers' plants -- is under enormous pressure to be cost competitive. Given that Anheuser-Busch has centralized purchasing for most supplies and that the costs for labor and materials are generally similar at all plants, cost-effective sourcing depends mostly on location-specific costs such as state and local taxes, freight and utilities. In fact, utilities represent a sizable portion of these location-based costs. Competitive utility rates are key to reducing the manufacturing costs of our products.

All consumers will benefit from competition. Experience in the natural gas industry shows that prices came down for all retail classes of customers when the industry was deregulated. Not only will Anheuser-Busch be able to access more competitively priced electricity but our suppliers, our nearly 2000 employees and their families in the Commonwealth of Virginia and our millions of individual customers throughout the United States will have the benefit of lower, more competitively priced power.

While elected officials, regulators and others debate deregulation and competition, we have no choice but to seek the lowest possible electric costs available today. Unfortunately, FERC's order number 888 and other actions by the Commission may have potentially negative impacts on our ability to negotiate reduced price contracts. In the past if cogeneration of

electricity and steam was an economically viable alternative to separately generating steam on site and purchasing all our electricity from the utility, we did not have to pay the utility an exit fee or other compensation for their uneconomic costs. FERC's current policy seems to change that. This will substantially reduce our cost savings opportunities and our ability to negotiate with high-cost utilities.

But, rather than pursue lower electric costs on a piece-meal basis, we would prefer to have the ability to purchase electricity from any supplier connected to the grid. Deregulation and competition must come to the electric utility industry so that all customers have an opportunity to reduce their costs. We would like to see that result, as soon as possible, and in the most efficient manner.

A competitive electricity market, however, cannot be achieved if competition is limited to wholesale transactions. A utility has no incentive to control costs, to innovate, or even to buy the most economical power available in the wholesale market if its retail customers are captive. FERC's news release stated that the costs savings expected from its orders 888 and 889 (which opened wholesale power sales to competition) are approximately \$3.8 to \$5.4 billion per year. These savings, however, are only a small fraction of the savings which can be expected to result from full and open retail competition. One study recently estimated that consumers could save \$80 to \$100 billion a year.

Anheuser-Busch hopes that the change to retail competition does not slow down in the national debate over federal versus state rights. Because FERC is expressly prohibited from ordering the transmission of energy directly to an ultimate consumer, some utilities argue that neither a state nor FERC can compel a utility to engage in retail wheeling. However, the practical implications of interstate transmission mean that it would be extremely difficult for states to enact true customer choice absent a national framework for such reform.

Recognizing that electrons do not respect state boundaries and that the implications of customer choice affect consumers and workers in all 50 states, a Congressional role is appropriate. We commend the efforts of Representatives Bliley and Schaefer in responding to this national need. Congress has the power to enact a statute that would open the transmission system to allow retail competition on a uniform, equitable basis for utilities and consumers everywhere.

The issue of stranded costs appears to be a major barrier in the transition to a competitive industry. We believe that it is not fair to ask retail customers to bear the full burden of a utility's stranded costs. In most cases, they did not ask for or support the high-cost nuclear plants or the high-priced power contracts now plaguing some utilities. In fact, consumer groups like the Virginia Committee in many states actively opposed such projects when they were originally conceived. Full stranded cost recovery would perpetuate the existing high rates that are damaging our competitiveness and amount to a direct subsidy for inefficient utilities. Stranded-cost recovery would also discriminate against efficiently managed electric utilities that made the right choices on assets and now run them efficiently. The degree of discretion that each utility had over any given investment should define the costs that must be shared by each stakeholder.

On the issue of market power we must ensure that deregulation and competition go hand-in-hand. No individual company or group of companies should be in a position to exercise unfair market power. This is particularly true in areas that have transmission constraints. Several states have required their utilities to divest part or all of their fossil generation assets as a quid-pro-quo for recovery of stranded costs in order to eliminate concentration of market power.

Transmission and distribution are natural monopolies and should be regulated as such. Rates charged for the use of transmission and distribution facilities should be based on the actual costs incurred by the owners of those facilities in providing these services. The same rates

should always apply for similar services, regardless of the user. The transmission system should be considered as a national grid and controlled by regional independent system operators (ISO's) instead of individual state or subregional ISO's.

Anheuser-Busch supports the repeal of PURPA and the reform of PUHCA as part of an overall program to bring deregulation and competition to the electric industry. These actions should be part of an overall program and must not be considered in isolation.

In closing I commend the Subcommittee for initiating this forum. Anheuser-Busch urges Congress to act expeditiously to open the electricity industry to real competition so that all customers benefit, large and small alike. As many states are proceeding with their own deregulation initiatives, it is essential that Congress act to ensure that an efficient interstate electricity commodity market is established in a timely manner by a specific date. On behalf of the employees and customers of Anheuser-Busch, thank you for this opportunity to share our views.